Abolish the SEC

Graeme B. Littler

Official academics call the Securities and Exchange Commission (SEC) a savior of capitalism. In fact, it is an enemy of the free market.

The SEC was set up in 1934 by Franklin D. Roosevelt to regulate securities markets. There was almost no public opposition. Official opinion of all sorts agreed with the first New Dealer, Herbert Hoover, that falling stock prices were caused by "sinister, systematic bear raids . . . , vicious pools . . . pounding down" stock prices so traders could "profit from the losses of other people."

Similar sentiments prevail today among the politicians who advocate more power for the SEC. But rather than giving the SEC more money and power, Congress should abolish it. Here are just some of the reasons why.

One: The SEC Erects Barriers to Competition.

Thanks to the SEC, raising capital through the issuance of new stock is an extremely time-consuming, highly technical, and costly process. It requires a mountain of paperwork, the filing and refiling of documents, and very expensive CPAs and lawyers. Many small companies—which don't have the resources and knowledge to negotiate this bureaucratic maze—can't raise new money and grow. Large, established firms do just fine, however, and they like the lessened competition.

Two: The SEC is Anti-Shareholder.

The SEC defends the interests of entrenched, old-line corporate management over the true owners of companies, the

shareholders, by hampering corporate "raiders." Raiders seek to make a profit by buying out a firm's owners, firing top-heavy and inefficient management, and installing people who will make the company more profitable.

The SEC requires "raiders" to file public reports after they acquire five percent or more of a company's stock, in accordance with the Williams Act, which was devised by the SEC and corporate lobbyists. These filings are designed to tip off management about possible tender offers, thus giving them plenty of time to scheme a takeover defense to secure their jobs at shareholder expense.

Three: The SEC Turns Innocent People into Criminals.

Last year's biggest scapegoat was the insider trader, who committed the "crime" of buying or selling stock on the basis of non-public information. But it is the SEC's own complicated and time-consuming takeover rules that make inside information valuable in the first place. Without the filing requirements, "raiders" would quietly acquire shares voluntarily in the market from people who want to sell. Without SEC-mandated delays, there would be no "inside information" to capitalize on.

There is nothing wrong with using inside information. In fact, insider trading is economically beneficial in the sense that it causes security prices to adjust faster to critical new information. Insider trading is a victimless crime. There is no moral requirement to tell the owner of the property you're buying that you know how to make a profit out of it. No stockholder was ever forced to sell shares against his will.

Four: The SEC Protects the Brokerage Industry Cartel.

Since the SEC restricts entry into the brokerage industry, it is the enforcer of a highly profitable cartel. With brokerage

houses as its constituents, it's not surprising to see the SEC campaigning against the recent efforts to repeal the Glass-Steagall Act, which restricts competition.

Five: The SEC Profits From Its Blunders.

As Ludwig von Mises observed, government regulation generates unforeseen problems, which excuses more regulation, which causes still more unforeseen problems. The SEC has a history of growing and profiting from crises. It has, for example, capitalized on the 1986 insider-trading scandal by getting a bigger budget and more staff, the dream of every D.C. bureaucrat. In fact, its budget is 62% higher today than in 1982. And today, it's busy using the Crash of 1987 to justify more regulation, especially of the competitors of Wall Street in the futures and options markets.

Six: The SEC Favors Price Controls.

The SEC is pushing for the power to shut down the financial markets in times of "emergency." SEC chairman David Ruder also endorses the idea of daily trading limits on stocks, which would halt trading once a stock price hits its SEC-set maximum daily limit. It is very damaging—even in government-caused emergencies—to prevent willing sellers and buyers from making a trade.

Seven: The SEC Invades Privacy.

Acting on behalf of the SEC, the U.S. government pressured Switzerland, England, Japan, and others, to swap information on the stock market dealings of private citizens.

For all these reasons the SEC should be abolished and the laws backing it repealed. This would dramatically simplify selling new stock and thus be a boost for new businesses,

competition, and the free market. And industry self-regulation and normal police agencies will protect against fraud.

The securities industry is not problem-free, of course, and never will be. But it will function better without the Big Problem, Washington, D.C., in charge of it.

Cancel the Postal Monopoly

Llewellyn H. Rockwell, Jr.

In the 18th century, as he had for millennia, the urban peddler went from door to door with a sack on his back. When we see this antique method of economic organization, not in a museum setting at Colonial Williamsburg but daily on the streets of every city and town in America, we know the government is in charge.

The Post Office has been a federal agency since 1775. And since 1872 it has been illegal for anyone but government employees to deliver a letter. In that year, at Post Office behest, Congress outlawed the low-priced, fast delivery of the Pony Express. It was to be the last express service available to regular mail customers.

A few years ago, a Rochester, New York, teenager offered his neighbors same-day bicycle delivery at 10¢ each for Christmas cards in his subdivision. Soon Postal Inspectors—who seem to be the only fastmoving part of the "service"—arrived at his house and threatened to arrest and jail him unless he stopped.

Somehow, even from just a common-sense viewpoint, this doesn't look like something that should be illegal. But indeed he was violating two parts of the postal laws. He was delivering first class mail—which is a federal monopoly—and he was leaving his mail in mailboxes.